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SUBJECT: IMF Insists GOM Cut Spending to Get New Program

Ref: ANTAN 58 AND PREVIOUS

11. (SBU) Summary: The International Monetary Fund (IMF) and Government of Madagascar (GOM) are on the cusp of completing a new program IF spending cuts can be achieved to bring the 2006 Budget into balance. If approved, the IMF would provide USD 80 million over three years. Fund "seal of approval" would also clear the way for donor budget support. Finance Minister Radavidson and Prime Minister Sylla are now responsible for sharply reducing expenditures, amending the Budget in the National Assembly, and reining in a spendthrift President Ravalomanana six months before the election. END SUMMARY.

12. (SBU) On his fourth visit to Madagascar in six months, IMF Mission Director Brian Ames remained optimistic the GOM would soon complete negotiations for a new program because most conditions have been met (reftels). However, the IMF insists the GOM must show "real commitment" to cutting spending and amending the 2006 budget in the ongoing legislative session. The IMF Mission and GOM agreed in principle to finalize a new Poverty Reduction and Growth Facility (PRGF), and Finance Minister Radavidson is leading an ongoing debate at the Council of Ministers to amend the Budget by early July.

13. (SBU) According to IMF ResRep Van Den Boogaerde, the proposed PRGF of USD 80 million over three years would be submitted to the IMF Board for approval in July. In a June 6 press conference, the ResRep reported that GOM fiscal revenue for the first six months of 2006 was far below target and spending must be reduced to bring the budget into balance. Separately, Van Den Boogaerde told a donors' meeting that budget cuts in "non-priority" areas will be sufficient to restore fiscal stability. The IMF recommended the GOM halt the rehabilitation and construction of government buildings, and postpone new vehicle acquisitions. Given the IMF's willingness to complete a new PRGF, the European Union is expected to soon disburse 20 million euro (about USD 24 million) in budget support to the GOM. The African Development Bank also has about USD 25 million in budget support on hold until its Board takes a decision based on the IMF talks.

14. (U) Addressing the National Assembly June 6, Prime Minister Sylla revised downward the GOM's 2006 growth forecast from 6 percent to between 4.5 and 5 percent. PM Sylla also revised the 2006 inflation forecast upward from 8

to 12 percent. Explaining the projections, which are consistent with IMF analysis, PM Sylla noted high petroleum prices as well as declining revenue from apparel and vanilla exports.

15. (SBU) COMMENT: Slowly but surely, the GOM has met IMF conditions to qualify for a new program, agreeing to eliminate exonerations, curb extra-budgetary spending, and resolve the crisis at the national electric utility. Madagascar's "outsider" status as a non-Program poor country, and the holds on much-needed budget support, have provided motivation to take difficult steps. Now the real test comes when the Ravalomanana government is expected to cut spending while he runs for re-election. Even with the best of intentions it will be difficult to enforce any kind of austerity budget over the next six months. END COMMENT.

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